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## Bear Stearns Turns to Marano for \$1.6 Billion Bailout (Update7)

By Yalman Onaran and Jody Shenn



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June 27 (Bloomberg) -- **Bear Stearns Cos.** assigned its top mortgage trader to help manage the \$1.6 billion bailout of a money-losing hedge fund as it tries to unwind bets on investments tied to home loans.

**Thomas Marano**, the 45-year-old global head of mortgages and asset-backed securities, was appointed after Bear Stearns agreed to provide financing to its High-Grade Structured Credit Strategies Fund, said a person with knowledge of the decision. New York-based Bear Stearns, the fifth-biggest U.S. securities firm, said in a statement yesterday that it won't rescue a second fund, which borrowed more and sustained bigger losses.

Pulling Marano away from one of Bear Stearns's biggest businesses shows how high the stakes are for Chief Executive Officer **James E. ``Jimmy'' Cayne**. Marano will be working on a temporary basis with **Richard Marin**, head of Bear Stearns Asset Management, and **Ralph Cioffi**, who oversaw the funds, said the person, who declined to be identified because the decision hasn't been made public.

``They're probably doing whatever is necessary to protect the \$1.6 billion," said **Peter Goldman**, who helps manage \$600 million at Chicago Asset Management and holds shares of Bear Stearns.

**Michael Winchell**, a Bear Stearns executive who was the firm's chief risk officer in the 1990s, will help Marano to sell off the fund assets, a person familiar with that appointment said. Winchell is chief operating officer of Bear Wagner Specialists LLC, the firm's market-making unit on the floor of the New York Stock Exchange.

Bear Stearns spokeswoman **Elizabeth Ventura** declined to comment.

### Stock Performance

Concern that the hedge fund bailout and collateral damage would hurt earnings sent **shares** of Bear Stearns down 3.2 percent on June 25, the biggest drop in three months. The stock gained 0.2 percent yesterday after Bear Stearns cut the size of the bailout to \$1.6 billion, half as much as it offered last week. They rose for a second day today, gaining 2.8 percent to \$143.31 in NYSE composite trading.

Bear Stearns shares are down 12 percent this year, the worst performance in the 12-member Amex Securities **Broker/Dealer Index**.

Marano joined Bear Stearns's corporate syndicate department in 1983 with a degree from Columbia University's Columbia College in New York. During the next two decades, he helped pioneer the market for mortgage-backed securities and make Bear Stearns one of its dominant traders.

### Mortgage Pioneer

In 1987, Marano created the first real estate mortgage investment conduit, or Remic, an investment-grade bond that separates home-loan pools into different maturity and risk classes, for Fannie Mae. Seven years later, he helped underwrite the first commercial mortgage-backed security sold in tranches.

Bear Stearns named Marano head of the mortgages in 2001.

In a March presentation, Marano and **Jeff Mayer**, co-head of global fixed income, said mortgages were responsible for \$927 million of Bear Stearns's revenue growth from 2002 to 2006, or almost a quarter of the \$4.3 billion total increase.

``He's one of the most experienced and savvy mortgage credit-risk managers on the Street," said **Thomas Pearce**, who worked with Marano for 11 years and now is a managing partner at Vertical Capital LLC, a New York-based firm that manages collateralized debt obligations, or CDOs.

#### Lending Expansion

Marano led Bear Stearns's expansion into lending to ensure a steady supply of mortgages it could package into securities. Bear Stearns now is the lender for about a quarter of the home loans it turns into bonds. In a March interview, Marano said being an originator helps the firm avoid bad loans that can erode the value of mortgage-backed securities it sells to investors.

In April, Bear Stearns's mortgage-servicing unit, also under Marano's watch, formed a nationwide team to stave off foreclosures on home loans to the riskiest borrowers.

Marano earlier this year elevated **Michael Nierenberg** and **Jeffrey Verschleiser** as heads of mortgage trading, reflecting his efforts to build up the home-loan business for Bear Stearns overseas. He still oversees the trading operation, in addition to lending and mortgage-backed securitization.

The two hedge funds were run separately at Bear Stearns Asset Management, the firm's fastest-growing unit in 2006. They borrowed more than \$10 billion and invested heavily in highly rated pieces of CDOs, securities that included bonds backed by some of the riskiest home loans.

#### Adding Firepower

Bear Stearns said in yesterday's statement that it ``brought in additional resources with expertise in these asset classes to facilitate the orderly de-leveraging process."

The bailout gives Bear Stearns more time to decide how and when to sell what's left in the fund. The firm may want to find buyers for the securities privately, put them up for auction or repackaging them into new CDOs.

``The infusion of liquidity by the parent company means BSAM can now be patient with respect to any other sales," said **Jeremy Shor**, a portfolio manager at Brown Brothers Harriman & Co. in New York who oversees about \$3 billion in asset-backed bonds. ``Not having a forced seller of their size in the marketplace should be constructive, although concerns linger about other funds"

When asked on a conference call with analysts last week how a firm with a reputation for strict risk management could err in a market it dominates, Chief Financial Officer **Samuel Molinaro** said the asset-management arm is sealed off from the rest of Bear Stearns with a ``Chinese wall."

``Clearly there are controls in place in the asset- management side too," Molinaro said on the call. ``Obviously we didn't envision market dislocation of this degree."

#### 'Challenging' Market

Performance reports show that until March the High-Grade Structured Credit Strategies Fund hadn't had a monthly loss since its inception in October 2003. The second fund, the High-Grade Structured Credit Strategies Enhanced Leverage Fund, was started in August 2006 and made money every month until February.

The company is continuing to work with the creditors of the High-Grade Structured Credit Strategies Enhanced Leverage Fund, **Bear Stearns** said in yesterday's statement. That fund has \$1.2 billion of outstanding loans, it said.

The losses mounted as defaults on subprime loans accelerated, eroding the value of CDOs the funds held, and a second bet Cioffi, 51, had made as a hedge against such declines also went bad. By the end

of April, the enhanced Bear Stearns fund was down more than 20 percent for the year.

``The subprime mortgage market has been challenging for a number of months," Cayne, 73, said in the statement yesterday. ``Over this time period, Bear Stearns's core trading and capital markets businesses have managed this risk well."

#### Subprime Risks

U.S. Securities and Exchange Commission Chairman **Christopher Cox** said in testimony yesterday that the agency has opened about a dozen investigations in connection with subprime mortgage lending and securitization.

The cases ``relate generally to subprime," including debt issuers and the secondary market for securities such as CDOs and collateralized loan obligations, Cox told reporters afterward. He didn't identify people or companies under investigation.

Merrill Lynch & Co. CEO **Stanley O'Neal** said today in London that risks are ``reasonably well contained" in the subprime mortgage market.

``There have been no clear signs it's spilling over into other subsets of the bond market, the fixed-income market and the credit market," said O'Neal, who was speaking at a conference organized by Euromoney Institutional Investors. ``There are risks in some of the structures, in some of the complexities of CDOs, mortgage-backed securities and particularly prime brokerage, but there's no clear sign that there's contagion developing."

Merrill is the third-largest U.S. securities firm by market value after Goldman Sachs Group Inc. and Morgan Stanley. The three companies are based in New York.

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